RJML/TRAI/2019-20/002

21st May 2019

To,
Sh. Anil Kumar Bhardwaj
Advisor (B&CS),
Telecom Regulatory Authority of India,
Mahanagar Doorsanchar Bhawan,
Jawahar Lal Nehru Marg, New Delhi 110002

Subject: Counter comments on Consultation Paper on 'Entry level Networth requirement of Multi-system operators in Cable TV services' dated 09.04.2019.

Sir,

Please find enclosed herewith comments of Reliance Jio Media Limited (RJML) on the consultation paper on 'Entry level Networth requirement of Multi-system operators in Cable TV services' dated 09.04.2019, for your kind consideration.

Thanking You,
For **Reliance Jio Media Limited,**

Authorised Signatory

Enclosures: As above.

COUNTER COMMENTS OF RELIANCE JIO MEDIA LIMITED (RJML) ON TRAI'S CONSULTATION PAPER ON 'ENTRY LEVEL NETWORTH REQUIREMENT OF MULTI-SYSTEM OPERATORS IN CABLE TV SERVICES' Dated 09.04.2019

3.1 Do the present rules and provisions as regards eligibility and net worth for MSO require a review or modification? Give your answer with justification?

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3.3 Is there a need for prescribing an entry level minimum net worth for the MSOs? Please justify your comments.

The current regulatory does not have any provisions of networth criteria for MSOs as qualifying criteria. When the rules and regulations were drafted, the MSO sector was very disorganized and immediate need of the time was to address other issues like interconnection and tariffs. As the MSOs got digitized, different challenges cropped up and regulator tried to address them by bringing in amendments from time to time.

TRAI's 2017 Regulations on tariffs, quality of services and interconnection are customer centric, crafted with the objective of providing choice to the customer, transparency and quality services at affordable prices.

The MSO business is quite capital intensive, in order to provide good quality of services, periodic investments in infrastructure and technology upgrades are required. Under the regulatory regime cost for meeting customer support norms and compliances is high. The returns of a standalone MSO business is not very high and it has a long gestation period.

The MSO sector has a sizeable number of non-serious players who have secured MSO registrations but failed to start services. Television channels were facing a similar issue when the minimum networth criteria was very low. Non-serious players would secure permissions to operate television channels but they were either not being operationalized or they were broadcasting substandard content. In order to curb this situation, the MIB's Uplinking and Downlinking guidelines for television channels were revised on 5th December, 2011 and the minimum networth criteria for the 1st News channel of the company was raised from Rs.3 Crores to Rs.20 Crores and the criteria for subsequent news channels was increased from Rs.2 Crores to Rs.5 Crores. Similarly, the minimum networth criteria for the 1st non-news TV channels was increased from Rs.2.5 Crores to Rs.5 Crores and for subsequent non-news channels and additional networth criteria was raised from Rs.1 Crore to Rs.2.5 Crores. After the revised guidelines came into force, the number of non-operational channels came down significantly.

DTH Operators are required to submit a non-refundable fee of Rs.10 Crores and HITS operators are required to comply with a minimum networth criteria of Rs.10 Crores. MSOs are currently not subject to any minimum networth criteria and are required to pay a one-time processing fees of only Rs.1 lakh to MIB. It can be seen that minimum networth criteria is a tool to ensure entry of serious and accountable players in this industry and this approach could be replicated in the case of MSOs as well.

MSOs which are not adequately capitalized, are likely to invest in poor quality infrastructure, STBs and network equipment which results in (a) frequent breakdown in service and (b) poor quality STBs result in a poor customer experience (c) inability to meet the TRAI's Interconnection, Tariff and QoS norms. Poor quality Subscriber Management System and Conditional Access System are prone to piracy, resulting in loss of revenues to the stakeholders in the value chain and resultant disputes.

The spirit of the TRAI's 2017 Regulations on Tariffs, QoS and Interconnection is to treat all DPOs at par with each other, promote a level playing field, minimize disputes among stakeholders and provision of Quality services to subscribers. Presently no minimum networth criteria is prescribed for MSOs, in order to ensure a minimum level of QoS is maintained and TRAI's norms are complied with, a minimum level of investment will be required in the MSO business and hence arises the need for laying down a minimum networth criteria for MSOs.

3.2 If yes, should there be provisions specifying eligibility only for registered proprietorship / partnership firms or it should continue to include individuals or group of individuals as at present? Please elaborate your comments with reasons and facts.

All modes of ownership models such as registered proprietorship / partnership firms, registered companies and group of individuals as at present could continue subject to the meeting the minimum networth criteria.

3.4 If yes, what should be the procedure to check and verify the net-worth in case of individual or group of individuals? Similarly, what should be the mechanism to verify the net-worth as claimed by business entities like proprietor-ship firm, partnership firm, LLP or Company as the case may be?

The current practice of MIB which requires submission of the following alongwith the application:

(a) Networth Certificate prepared by a certified chartered accountant, in a prescribed format.
(b) Audited Balance Sheet and Profit & Loss Account of the preceding financial years.
(c) In case the networth certificate is on a date different from end of the financial year, it should be supported by certified balance sheet from the statutory auditor on the date of such certification.
(d) In case shares have been allotted on basis of valuation of a property / equipment, then valuation certificate from an approved valuer should also be enclosed.

The Networth Certificate, Balance Sheet and P&L accounts can be examined by an empaneled Chartered Accountant, to verify the actual networth of the applicant.

3.5 Should the net worth requirements for entrant MSO be based on its proposed area of operation? Give your comments with justification.

Classification of MSOs basis the area of operations will not be of much utility since the basic cost of establishing MSO infrastructure (Headend, SMS, CAS etc) is substantial. The variable CAPEX components are number of STBs, channel capacity and network costs. Therefore, minimum CAPEX requirements will be similar for all MSOs irrespective of area of operations, and hence area of operations will not be a suitable criteria to determine minimum networth criteria requirements. Minimum CAPEX requirements should be considered as the basis to determine the minimum networth criteria and not area of operations.

All registered MSOs that had been permitted to operate in designated areas have been permitted to operate on a PAN India basis vide MIB's Circular No. 2/108/2015-DAS dated 22.01.2017, hence classification on the basis of area of operations would be a step backward direction.

The intent and spirit of the TRAI's 2017 Regulations on Tariffs, QoS and Interconnection is to bring all DPOs at par with each other, promote a level playing field, minimize disputes among stakeholders and provision of quality services to subscribers.

All DPOs are required to comply with the regulations and are treated on an even keel by the law. Introduction of various categories of MSOs will be a regressive regulatory step and goes against the intent and spirit of TRAI's 2017 regulations. Categorization and relaxation of minimum networth criteria will open the door for MSOs to seek relaxations on other regulatory counts as well. Therefore, it is submitted that classification of MSOs for the purpose of minimum networth criteria should not be done and a uniform networth criteria should be applicable for all the MSOs.

3.6 If yes, what could be different classification of entrant MSOs based on area of operation? Give your comments with justification.

Please refer to response to 3.5.

3.7 What should be the entry level net worth for each of the categories of MSOs if any classification is made on the basis of area of operation? Give your comments with justification.

The minimum networth criteria for a MSO should be **18 Crores**. The basic CAPEX requirements for establishing a MSO infrastructure have been considered to arrive at this amount.

This is based on the following considerations:

Channel Capacity: 300

No. of Subscribers: 50,000 (minimum number of subscribers for a viable MSO business)

S. No.	Heads	Sub Heads	Discription	Cost
1	Setup			INR - Cr.
A		Head End Infrastructure	300 Ch - 175 SD FTA, 100 SD PAY, 25 HD Pay	7
B		CAS and SMS	Inclusive of License	3.5
C		Compliance Cost	Call Center and Web Site	0.5
		Total Setup Cost		**11**
2	Delivery			
A		STB	Min. 50,000 @ 1,000/-per STB	5
B		Distribution Network	`@ Rs. 400 per STB	2
		Total Delivery Cost	STB and Distribution	**7**
	Total	Total Capex		**18**

The above prices are for Headend, SMS and CAS systems that are fully compliant with the QoS and technical requirements prescribed by TRAI. Substandard and cheaper alternatives are prone to piracy and frequent breakdown in services which leads to frequent disputes between stakeholders. They result in poor customer experience and are a cause of loss of revenue to the government and stakeholders. Therefore, substandard and cheaper alternatives have not been considered.

3.8 In case, license area of MSO's is classified on the basis of area of operation, what should be the mechanism and criteria to classify existing MSOs? Please comment with proposed process to re-classify.

While we maintain that the minimum networth criteria should be the same for all MSOs, classification if required could be done on the basis of area of operations as follows:

a. MSOs operating in multiple states could be classified as National MSOs
b. MSOs operating in a single state can be classified as State level MSOs
c. MSOs operating in only one district can be treated as District level MSOs

However, as stated in response to 3.5, no relaxation should be permitted in compliances and minimum networth criteria on the basis of classification.

3.9 Should the minimum net worth required in case of MSOs operating in North east and/or J&K be relaxed compared to other regions? Please provide suitable justification.

North East and J&K are security sensitive areas, due to the topography of the region larger investments in distribution network maybe required as compare to MSOs operating in other areas. Therefore, the minimum networth for MSOs in these areas maybe kept the same as the other MSOs or maybe increased marginally to cover the additional costs.

3.10 If yes, by how much should the entry level net worth criteria be relaxed? Please give your comments with justification.

The minimum networth criteria should not be relaxed for these areas as the capex investment could be much higher owing higher costs on distribution network. Please refer to response to No. 3.9

3.11 What are the components of the fixed costs incurred by an entrant MSO? Give your comments with justification.

Some heads for fixed cost of MSOs would include:

(a) Cost of infrastructure such as Headend, SMS, CAS, STBs etc
(b) Electricity
(c) Cost of certain human resources (eg.HR, Finance, Network, IT)
(d) Insurance
(e) Rentals
(f) Website
(g) Repair and maintenance contracts

3.12 What are the components of the variable costs incurred by an entrant MSO?

The variable costs heads for MSOs could include:

(a) Manpower costs for installation, field support and customer support etc.

3.13 How do the fixed costs and the variable costs depend upon the scale of the operation that is for the small, medium and large operators?

The fixed costs would vary depending on the scale of operations of a MSO. There would be differences between various categories of MSOs since costs are linked to networking, leased lines, rentals, electricity, equipment and manpower deployed. As the scale of operations becomes bigger the cost of fixed costs also increase.

Similarly, variable costs are dependent on the scale of operations, as the number of customers served increases, the cost of content and cost of manpower for customer support also increases. The cost of field support staff and customer care center also would depend on the no of subscribers and the number of LCOs linked to the MSO.

3.14 Should the minimum net worth required be based upon the average fixed cost incurred by an entrant? If yes, what should be the appropriate criterion? Please explain

The minimum networth criteria should not be based on the area of operations as discussed in response to No. 3.5. The determination of minimum networth criteria on the basis of fixed costs and variable costs may not be an accurate measure since these could vary from operator to operator. A substantial part of MSO investment is in the form of CAPEX as mentioned in the response to 3.5 & 3.7, therefore there should be a uniform minimum networth criteria based on CAPEX required to setup a MSO business.

3.15 Discuss if there could be some other criteria in context of costs incurred such as a combination of average fixed and variable costs

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3.16 What is the average cost incurred in establishing a minimum capacity of 100/200/300/500 channels? Should the minimum net worth depend upon the proposed channel carrying capacity of the entrant? Please justify

The networth criteria should not be dependent on the minimum capacity of channels, since the channel carrying capacity forms a part of the cost of the MSO headend. The cost of SMS and CAS do not vary with the increase in the number of channels. The increase in cost per 100 channels is also linked to the number of HD & SD channels. The increased CAPEX cost would vary between 1.5 crores to 3 crores per 100 channels depending on the number of HD & SD channels being included in the 100 channels.

3.17 If the answer to question 3.16 is in affirmative, what should be the minimum net worth requirement for an entrant MSO willing to provide just the basic service tier of channels? Further, how should the minimum net worth requirement vary with increase in proposed capacity tier?

Minimum networth criteria of all MSOs should be 18 Crores, since this is the basic CAPEX cost for establishing MSO infrastructure. A MSO offering basic tier services may not be a viable business proposition since price sensitive subscribers will gravitate to platforms like DD Freedish which offer similar free to air channels at no cost.

3.18 Should the minimum net worth depend upon the proposed number of subscribers that an applicant MSO would cater to? Please justify

It will be difficult to administer a regulation which links number of subscribers and networth criteria. It would imply that a MSO will need to revalidate the MSO registration and seek approvals on the minimum networth criteria when the subscriber base increases beyond a specified threshold. Therefore, in order to promote ease of doing business, the same networth criteria should be applied to all MSOs irrespective of size and scale as stated in response to 3.5.

3.19 If the answer to question 3.18 is in affirmative, what should be the proposed number of subscribers and the relevant net worth for the same?

3.20 Discuss if any other criterion could be used to determine the entry level net worth of the MSOs?

3.21 Should necessary modifications be made in Cable TV rules in case of individual applicants so as to ascertain his/her net worth more prudently compared to the existing regime?

Currently the under The Cable Televison Network Rules 1994, the minimum networth criteria of a MSO registration applicant is not specified. Though a statement of Networth is required to be submitted alongwith the application, it is not mandatorily verified by a Chartered Accountant empaneled by the MIB. The regulation should be adequately amended to specify the minimum networth criteria for an applicant, and the networth submitted by the applicant should be mandatorily verified by an empanelled Chartered Accountant.

3.22 Should the individual be permitted to seek MSO registration? If he/she is permitted, what should be the method for calculating and verifying his/her net worth?

MSOs may not necessarily be registered corporates or partnerships, they could be individuals as well. There should be no restriction on individuals from seeking MSO registration.

The current practice of MIB which requires submission of the following alongwith the application:

(a) Networth Certificate prepared by a certified chartered accountant, in a prescribed format.
(b) Audited Balance Sheet and Profit & Loss Account of the immediate preceding financial year.
(c) In case the networth certificate is on a date different from end of the financial year, it should be supported by certified balance sheet from the statutory auditor on the date of such certification.
(d) In case shares have been allotted on basis of valuation of a property / equipment, then valuation certificate from an approved valuer should also be enclosed.

The Networth Certificate, Balance Sheet and P&L accounts can be examined by a Chartered Accountant empaneled by the Ministry, to verify the actual networth of the applicant.

3.23 Which documents need to be furnished at the time of registration in order to justify the given net worth requirements for all other 3 cases, i.e., body of individuals, partnership firms, companies?

The following documents maybe submitted alongwith the application to ascertain the networth of the applicant:

(a) Networth Certificate prepared by a certified chartered accountant, in a prescribed format.
(b) Audited Balance Sheet and Profit & Loss Account of the immediate preceding financial year.
(c) In case the networth certificate is on a date different from end of the financial year, it should be supported by certified balance sheet from the statutory auditor on the date of such certification.
(d) In case shares have been allotted on basis of valuation of a property / equipment, then valuation certificate from an approved valuer should also be enclosed.

The Networth Certificate, Balance Sheet and P&L accounts can be examined by a Chartered Accountant empaneled by the Ministry, to verify the actual networth of the applicant.

3.24 Comments on the contents of proforma on the basis of which net worth for the new entities is to be calculated?

The proforma for submission of networth enclosed with the consultation paper is adequate.